FISCAL NOTE
HB 40 - SB 40
FIRST EXTRAORDINARY SESSION

April 14, 1999

SUMMARY OF BILL:

- Repeals the Hall income tax.
- Institutes a 3% tax on the federal adjusted gross income of all income derived from sources in Tennessee.
- Authorizes a standard personal exemption of $4,000 per individual. Every individual, except a claimed dependent, filing a state income tax return would be allowed one exemption. Taxpayers filing jointly would be allowed two exemptions. A taxpayer would be allowed additional personal exemptions for each dependent claimed. The bill would require a couple to file their state income tax return in whatever manner, jointly or separately, as they file their federal income tax return.
- Provides a taxpayer credit for income taxes accrued to another state. However, the tax credit derived from income tax accrued to another state will not be allowed to exceed the income tax due in Tennessee. The allowable tax credit would not include any accrued interest or penalties owed another state because of back taxes. The credit for taxes owed to another state must be taken in the year in which they accrue. Non-resident individuals would be liable for the payment of this tax for any income the individual has received from sources within this state.
- Mandates employers withhold 3% of an employee's wages paid at the same time and in the same manner as amounts are withheld for federal tax purposes. An employee would be entitled to an exemption from withholding equal to the amount of deductions based on personal exemptions to which the employee is entitled. An employer would not be required to withhold any tax if the employee furnishes a signed exemption certificate to the employer.
- Requires employers who would be required to withhold wages to register with the Department of Revenue by July 1, 1999. Any employer who fails to register by October 1, 1999, would be subject to a penalty up to $1,000. Any employer who would become subject to these provisions after September 1, 1999, would have 30 days to register in order to avoid the $1,000 penalty
- Requires state income tax returns to be filed on April 15 of each year.
- Lowers the general state sales, use, lease, services and interstate telecommunications tax from 6.0% to 5.5%.
- Raises the reimbursement paid on the taxpayer's residence for taxpayers who are over 65 and have an income of less than $10,550 or who are totally and permanently disabled and have an income of less than $10,550. The reimbursement would be raise from $18,000 to $25,000 and the income eligibility level would be increased from $10,550 to $15,000.
- Provides that revenues generated under this bill would be for the purpose of funding improvements to public education, replacing revenues decreased by reducing the sales and income taxes and providing funds for property tax relief for local governments. Two-thirds of the revenue would be designated in the general fund for education purposes. The remaining one-third would be

distributed as follows: 1) 24.24% would be distributed among the incorporated municipalities and counties of the state as follows: (a) The first $35,000,000 would be distributed in the same ratio as each county or city received from the last distribution of the Hall income tax, (b) 10.55% would be distributed to incorporated municipalities in the same manner as under the Retailer's Sales Tax Act, (c) All other remaining revenue would be divided equally between the cities and counties, and each municipality would receive a percentage based upon the ratio of its population to the aggregate populations of all cities in the state, and each county would receive a percentage based upon the ratio of its population to the aggregate population of all counties. 2) The remaining 75.76% would be distributed to the state fund as follows: (a) 36.25% to the Education Trust Fund of 1992. (b) 5.12% to the sinking fund. (c) 34.39% to the general fund.

- Levies a tax at the rate of 5.5% of the gross charge for any advertising or advertising service related to the sale or distribution of any tobacco products or alcoholic beverages.
- Increases the tax rate on cigarettes from 13.0¢ per pack of 20 to 15.6¢ per pack of 20.
- Increases the tax on all other tobacco products from 6.0% to 7.2% of the wholesale cost.
- Increases the tax on mixed drinks from 15% of the gross receipts to 18% of the gross receipts
- Increases the tax on wholesale beer from 17% of the wholesale price to 20.4% of the wholesale price.
- Increases the taxes on the following privilege taxes: 1) Private Club, historic mansion house site, historic interpretive center, community theater, museum, zoological institution, public aquarium and historic performing arts center from $300 to $600. 2) Hotel and Motel from $1,000 to $1,200. 3) Convention center, urban park center and commercial airline travel club from $500 to $600. 4) Commercial passenger boat company from $750 to $900. 5) Establishment in a terminal building of a commercial air carrier airport from $1,000 to $1,000. 6) Premiere type tourist resort from $1,500 to $1,800. 7) Restaurant with 75-125 seats from $600 to $720. 8) Restaurants with 26-175 seats from $750 to $900. 9) Restaurants with 176-225 seats from $800 to $960. 10) Restaurants with 226-275 seats from $900 to $1,080. 11) Restaurants with 276 seats and over from $1,000 to $1,200. If a restaurant is licensed by the commission to sell wine only, the privilege tax imposed is under present law, and would be under this bill, one-fifth the amounts specified above.
- Increases from 15% to 18% the tax levied on the sales price of all alcoholic beverages sold for consumption on the premises, computed on the gross sales of alcoholic beverages for consumption on the premises.
- Increases from $3.90 to $4.68 per 31 liquid gallons, the tax that is charged to every person, firm, corporation, joint-stock company, syndicate or association in this state storing, selling, distributing, or manufacturing beer or other alcoholic beverages containing less than 5% alcohol. This tax is in addition to all other taxes assessed. The tax upon barrels containing more or less than 31 gallons are taxed at a proportionate rate.

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- Appropriates a sum sufficient to defray the costs of implementing this bill. Any expenditure of funds for the implementation of this bill must be approved by the Commissioner of Finance and Administration.
- Provides that the bill would take effect January 1, 2000 except for: 1) The provisions lowering the sales and use taxes which would become effective July 1, 2000. 2) For the purposes of adopting rules and the provisions changing the reimbursement for elderly and disabled low income home owners which would take effect upon becoming law. 3) For the purpose of employer registration the bill would take effect on July 1, 1999.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact $1,090,647,990 FY00
Net Impact $1,817,620,980 FY01

Increase State Expenditures - $5,756,500/ Property Tax Subsidies
Dept. of Revenue
Exceeds $3,000,000 Recurring
Exceeds $2,000,000 One-Time

Decrease Local Govt. Revenues - Net Impact $22,937,500 FY00
Net Impact $48,500,000 FY01

Estimate assumes the following:

- Based on information provided by the Department of Revenue, the Comptroller's Office and 1996 federal data, taxable income of Tennessee residents would generate approximately $2,264,280,980.
- Eliminating the Hall income tax would result in an estimated annual revenue loss of approximately $177,000,000 in FY00 and $184,000,000 in FY01.
- The decrease in state sales tax by 0.5% is estimated to decrease state revenues by approximately $359,300,000 in FY01.
- The increase in state revenues resulting from increasing certain privilege taxes by 20% is estimated to be approximately $13,820,000 in FY00 and $27,640,000 in FY01.
- The net increase in state revenues for FY00 would be calculated as follows: [(2,264,280,980 ÷ 2) + (27,640,000 ÷ 2) - (177,000,000 ÷ 2) x .6250] = $1,090,647,990.
- The net increase in state revenues for FY01 would be calculated as follows: [(2,264,280,980+27,640,000 - (184,000,000 x .6250) - 359,300,000)] = $1,817,620,980.
- The increase in state expenditures is estimated to exceed $10,756,500, of which $5,756,500 is for property tax subsidies to elderly and disabled homeowners and the remaining amount exceeding $5,000,000 are costs for implementation of a new tax structure.

- The net decrease in local government revenues for FY00 is estimated to be $22,937,500 and would be calculated as follows: [(184,000,000/2) x .3750) - (20,500,000/2).
- The net decrease in local government revenues for FY01 is estimated to be $48,500,000 and would be calculated as follows: [(184,000,000 x .3750) - 20,500,000].
- Hall income tax is apportioned 5/8ths to the state and 3/8ths to local governments.
- The impact for FY00 represents six months for tax collections.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport, Executive Director